BRITISH COLUMBIA

BC STATS

Ministry of Management Services

Infoline

Contact: bcstats.infoline@gems6.gov.bc.ca | Issue: 04-29 | July 23, 2004

- **Personal taxes in BC made up 18.1% of household spending in 2002**
- **There is wide variation in student completion rates among BC colleges**
- **BC has the highest rate of drug use in Canada**

The Economy

- **Wholesale sales dipped slightly in BC in May (-0.2% seasonally adjusted)**. Nationally, sales edged up 0.3%, as most provinces posted modest gains. Saskatchewan (-0.4%) and Nova Scotia (-4.0%) were the only other provinces posting a decline in wholesale sales.

  Data Source: Statistics Canada

- **Personal taxes in BC made up 18.1% of household spending in 2002, below the national average of 20.0%**. Taxes made up the largest shares of spending in Alberta (20.8%), Quebec (20.6%), and Ontario (20.5%). Taxes were lowest in PEI, at 16.5% of average household budgets. *Data Source: SC, Catalogue no. 62-202-XPE*

Tourism

- **The number of visitors entering Canada via BC border crossings rose 1.4% (seasonally adjusted) in May, despite a drop in US visitors**. Visitors from Japan (+21%), Australia (+15%) and the UK (+20%) led the growth in overseas visitors (+13%). However, almost half of this was offset by a 1% fall in American visitor entries. *Data Source: Statistics Canada*

BC Colleges & Institutes

- **British Columbia's community colleges and institutes have wide variation in the proportion of students that complete their studies**. Completion rates range from 47% at Langara College to 98% at the Justice Institute. The average completion rate (the percentage of students who say they completed their program requirements) for the 22 colleges and institutes in BC is 77% (unweighted average). However, many colleges offer university transfer credits, and many transfer students might inappropriately appear as not completing their program. For example, approximately one-half of university arts students transferred from the college system.

  Completion rates are closely correlated with the pursuit of job skills. At schools where students tend to say that they enrolled primarily to obtain job skills, completion rates tend to be high.

  For example, at Langara College, 23% were looking for tangible job skills while 58% of students said their main reason for enrolling was to obtain credentials. Langara has a lower completion rate among the 22 colleges in BC, due to the fact that it has a large number of university transfer students.

  Completion rates are also correlated with the median age of a school's students. Schools with a young student population tend to have lower completion rates. This could be because younger students tend to have more ambiguity about their career goals.

  Data Source: Outcomes Working Group, BC Stats, "2003 Key Student Indicators for BC Colleges and Institutes: Survey Results by Institution"

Distinct Society

- **British Columbia had the highest rate of Cannabis (marijuana or hashish) use in Canada in 2002**. Among British Columbians aged 15 and older, 39% admitted to using Cannabis more than once in their lifetime, and 16% were current users. Nationally, 32% of Canadians had used Cannabis and only 12% were current users. After BC, lifetime cannabis usage was highest in Alberta (37%),Nova Scotia (35%), and Quebec (33%).

  A similar pattern is found in the use of other illicit drugs (LSD, cocaine, etc). In BC, 20% of those aged 15 and over have used "hard" drugs at least once, well above the national average of

Did you know...
After getting into a fight with their partner, 36% of British Columbians would try to "make up" by making dinner for their partner. 14% would "grovel".

14%. Alberta (17%) and Quebec (16%) also have above average rates of hard drug usage.

Data Source: SC, Catalogue 82-003

Productivity growth

- **There are two basic patterns of productivity growth in Canadian industry**. In one model, productivity gains stem from innovations in existing companies—a relatively stable market in which long-established firms continually upgrade their technology and business practices.

  In the second model, productivity is the result of competition between firms, as market share is reallocated to more productive companies. Here one finds a more turbulent, dynamic market, where the decline and failure of some (less productive) firms is part of the process of economic development.

  In the Canadian manufacturing sector, the competitive reallocation of market share—the rise of some firms and the decline of others—accounted for 53% of total productivity growth over 1988-1997. The remaining 47% was due to productivity improvements within established companies.

  However, there are large differences between different manufacturing industries. In "atomistic" markets where there are a large number of small producers, competitive changes in market share are the engine of productivity growth (accounting for 90% to 100% of productivity gains). Examples include the clothing and textile industries, leather producers, and the like.

  In markets with large economies of scale, where a few big manufacturers dominate, productivity is driven by "within firm" innovations (accounting for about 80% of productivity growth). This is the case in industries such as primary metal, transportation equipment, refined petroleum, and so forth. These industries also tended to have higher productivity growth than the "atomistic" industries.

  Data Source: SC, Catalogue no. 11F0027-MIE

Patterns in Household Spending

- **Spending patterns show strong differences between high and low income households in Canada**. The poorest 20% of households spend an average of about $20,000, while the richest 20% of households spend about $120,000 per year—roughly five times higher.

  The highest income group spends much more money on all major budget items. However, there are interesting differences in how high- and low-income households allocate their budgets. The poorest households spend twice as much of their budget on food & shelter (48%) as the richest households (24%). The same is true of most modern necessities, such as health care (4% vs 2%) and utilities (5% vs 2%). For clothing, however, high- and low-income groups spend about the same share of their budget (4%).

  The most definitive "luxury good" found in broad budget categories is insurance and pension plan payments—future income security. This made up only 2% of spending in the poorest households, but 7% in the richest. The same relationship held for personal taxes—high-income households spend a far greater share of their budget on taxes (28%) than do low-income households (4%). *Data Source: SC, Catalogue no.62-202-XPE*

Agriculture

- **Small farm operators—those with gross farm revenues of $10,000 to $50,000—are largely running their farm as a hobby**. Small farm operations generated, on average, only $1,200 of income in 2002—contributing only a fraction of the farm operator's income. Small farm operators' income averaged $33,250, with 96% coming from off-farm sources.

  Even at medium size farms ($50,000 to $100,000 in revenues) off-farm income makes up 69% of total operators' income. It is only at large-scale farms where the farm itself is the main source of operators' income (60-70%).

  Data Source: Statistics Canada

***Infoline** Issue: 04-29*
***July** 23, 2004*

For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

Issue: 04-29
July 23, 2004

Crostobal Young (250) 387-0377
Originally published in *Business Indicators*, Issue 04-06. Annual Subscription $60 +GST

A Century of Government:

Provincial Revenues and Public Policy in BC, 1901-2003

History is often seen as a sort of laboratory for social scientists and policy analysts. This article provides a history of the BC government, as documented by provincial government revenues. [1]

British Columbia pioneered the modern system of taxation in Canada and was on the cutting edge of social policy. One hundred years ago, per capita government revenues were two or three times higher in BC than in other provinces.

Over the past century, the BC government has expanded enormously in both size and scope. After adjusting for both inflation and population growth, the BC government is more than 12 times larger today than in the early years of the 20th century. Much of this growth occurred in the post-war era – the mid-1940s to the mid-1970s – when the role of government in society was almost completely re-invented.

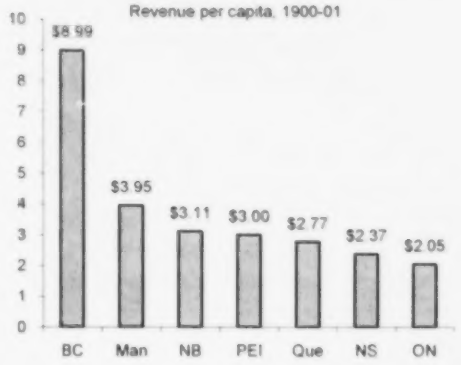
The uniqueness of the BC government gradually faded over the years. By the late 1960s, all of the provinces had adopted the taxation and social spending policies that BC had established earlier on. By the beginning of the 21st century, BC government revenues were slightly below the provincial average.

The reformation of government over these years has been dramatic. One hundred years ago, health care, education and social services made up a small fraction of the BC budget. Today, such programs represent the central purpose of the provincial government.

British Columbia, circa 1901

In 1901, BC had far more revenue per capita than any other province. BC government revenues amounted to $9 per person, roughly 260% more than revenue per capita for all the provinces combined ($2.50).

BC revenues were far higher than in other provinces



Nevertheless, this was very much a minimalist government by today's standards. There were only two "social programs" in BC: public schools and the Insane Asylum – the later more of a prison than a hospital. A small budgetary expense – grants to private hospitals and charities – rounded out social policy spending in the province.

An important reason for high revenues in BC was simply that this was the wealthiest province in confederation.

Much of the BC economy was geared towards resource extraction, principally mining, fisheries, and forestry. BC's coal mines, for example, were the most productive in the British Empire. Almost two-thirds (64%) of the population was

[1] BC Stats has compiled historical revenue statistics from 1872 to 2003. The principle source for this data was archival copies of the *Canada Year Book*, published annually since 1901 by the Dominion Bureau of Statistics (now known as Statistics Canada). Federal statisticians compiled enormous amounts of information for the *Year Book*, including data on provincial government finances. Data from 1970-2003 are from the Ministry of Finance.

male, and the province had the highest employment rate in the country. Indeed, in many ways BC was more of a work camp than a whole society. And the economic output of the province—on a per capita basis—far exceeded any other region in Canada.

BC's gross value added—a rough measure of economic output—was about $266 per capita in 1890. This was more than 60% above the national average ($164). Even in Ontario, the second wealthiest region, gross value added was 30% below the level of BC.[2]

But BC's revenues per person were two and a half times greater than those of the other provinces. The greater wealth of BC only accounts for about one-third of this difference. The affluence of the BC government was largely due to a complex and comprehensive system of taxation that was unique among the provinces.

BC's System of Taxation at the Turn of the Century

BC was the first province in Canada to establish the income tax, introduced as far back as 1876. By contrast, the federal government did not begin taxing income until the First World War, some four decades after BC. Most other provinces did not introduce an income tax until the 1930s.

Initially, the income tax was basically a tax on the wealthy. In 1901, the first $1,000 of income was exempt from taxation, absolving the vast majority of the population from having to pay. The top income tax rate was 4%, applying to those earning over $40,000 per year—in other words, the millionaires of the day[3]. Nevertheless, income tax was a minor contributor to provincial coffers, generating only 2% of revenues in 1901. This proportion, however, rose steadily over the following decades.

Like many provinces, BC also had inheritance taxes ("succession duties"), introduced in 1894, which taxed large transfers of wealth at rates beginning at 1% (rising to 36% on multi-million dollar estates). BC was also the first province to introduce a tax on business property, applied at 1% of assessed value. Over time, this was gradually replaced by a tax on corporate income. This was first introduced in 1901—two or three decades before other provinces adopted the tax.

Natural resource revenues—an elaborate system of royalties and taxes on output—were a major contributor to the BC budget. Mining operations alone generated 27% of government revenues and forestry an additional 7% in 1901. After a boom in the forest industry beginning around 1905, revenues from forestry increased dramatically.

Rounding out the tax system in BC was the poll tax. This was largely a tax on the poor, since it only applied if one did not otherwise pay taxes. The rate was $3 per head, or roughly $50 in today's currency.

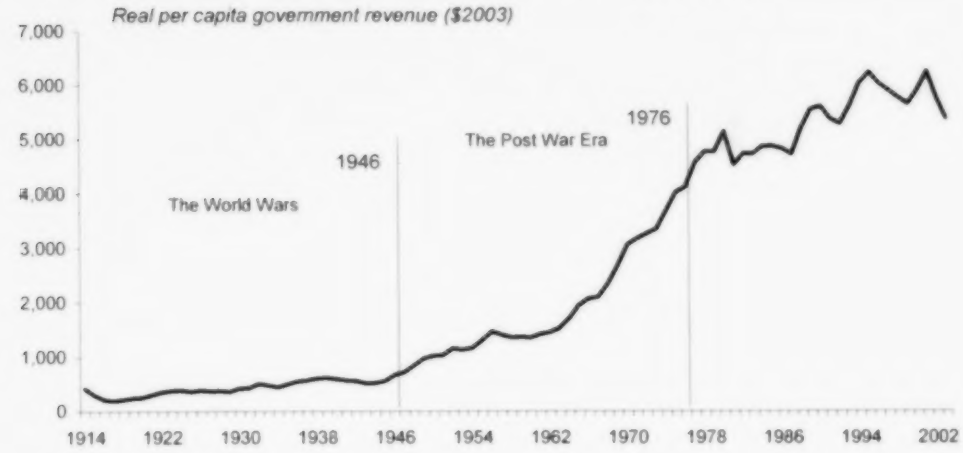
The system of taxation in BC was unique and attracted widespread attention among those interested in public policy. Indeed, BC's tax system was the subject of a 25-page article in the Journal of Political Economy, one of the top three academic economics journals in the US. [4]

[2] Source: Green, Alan. 1971. *Regional Aspects of Canada's Economic Growth*. U of Toronto Press.

[3] Perry, J Harvey. 1955. *Taxes, Tariffs, and Subsidies: A History of Canadian Fiscal Development*. U of Toronto Press. (p. 121.)

[4] Beckett, S.E. 1924. "Taxation in British Columbia." *Journal of Political Economy*. Vol. 32(4): 416-440.

The Rise of the BC Government, 1914-2003



Trends in BC Government Revenue

There were three major eras in the history of the BC government. In the era of the World Wars (1914-1945), there was modest incremental expansion in the size of government, as the early beginnings of the social safety net were drafted. During this time, real per capita revenues increased on average by 1.5% per year, mostly funded by economic growth.

In the Post-War era (1946-1975), the government embarked on a massive "province building" project, investing in public health care, education, social protection, and infrastructure development. Real per capita revenue expanded 7.0% a year on average, well above the rate of economic growth.

Over the last quarter century (1976-2003), the size of government has been comparatively stable. Revenues have expanded on average by 1.2% a year, though punctuated by periods of growth followed by declines in revenue.

Era of the World Wars: 1914-1945

In 1914, government revenues amounted to $24 per person. In today's currency—eliminating the effect of inflation—this represents some $408 per person. Over the next three decades, there was modest incremental growth in revenues as the province began to experiment with a broader role for government in the economy. Between 1914 and 1945, real per capita revenues increased 36%—an average annual rate of 1.5%.

The early beginnings of the social safety net were drafted during this period. The Workman's Compensation Board was established in 1917, and it was "unquestionably the most comprehensive and progressive [of its kind] in North America."[5] This was an age when workplace injuries could render one destitute almost overnight, and an age when the workplace fatality rate was almost 25 times higher than it is today.[6]

BC introduced Mothers' Allowances in 1920. This program provided income support for widowed or "abandoned" mothers with dependent children. In the first years, fewer than 800 families received support, covering just 1.2% of dependent children in the province.

Mothers' Allowances was perhaps the first direct consequence of electoral reform. Women gained the right to vote in BC elections in 1917.

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[5] Chaklader, Anjan. 1998. "History of Workers' Compensation in BC: A Report to The Royal Commission on Workers' Compensation in BC". Worker's Compensation Board of BC.

[6] In 1918, there were 203 workplace fatalities per 100,000 WCB-covered workers. By 2002, the workplace fatality rate was 9 per 100,000. (Data source: WCB).

The federal government established an Old Age Pension program in the late 1920s, and BC signed onto the program in the same year, becoming the first province in Canada with a seniors' pension. Nevertheless, benefit levels were minimal, and there were extensive eligibility restrictions. Less than one percent of the BC population (0.6%) received benefits[7].

This cautious expansion of the role of government was financed in part by new tax instruments. The gasoline tax was introduced in 1923, reflecting the rise of the automobile. The province also charged significant vehicle registration fees—something of a 'luxury tax' on the 10% of the population that had a vehicle[8]. Of course, a large part of this revenue likely went into new road construction.

BC also introduced an Amusement tax in 1917, charging 10% on admission prices for entertainments, and 5% on all bets placed at the racetracks.

In 1921, after the repeal of the prohibition laws, the province took over the sale of alcohol, with monopoly pricing that has ever since provided a sizable inflow of revenue. This was the beginning of the taxation of 'vice and sin'—the unsavoury habits of the populace transformed into a revenue source for government.

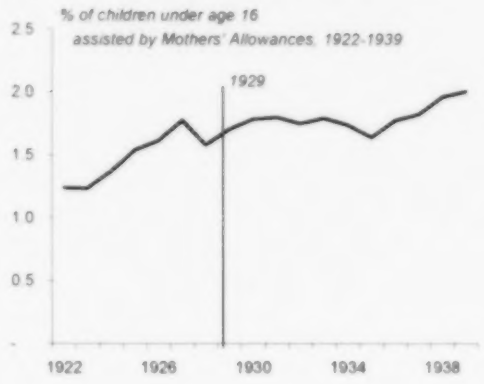
Economic Disaster: The Great Depression

When the Great Depression came crashing down upon the world in 1929, there was still little in the way of a social safety net in BC.

In 1933—in the height of the Depression—the proportion of children receiving support via Mothers' Allowances was still only 1.7%. Eligibility was firstly based on lone motherhood, and only secondly on financial need. As a result, widespread poverty did not increase the proportion of children or families receiving benefits.

Income support for others—couples (with or without children) and childless individuals—was largely left to private charity and churches.

Mothers' Allowances did not increase during the Great Depression



Data Source: Dominion Bureau of Statistics, Canada Year Book 1940, and BC Stats

The province did, however, initiate a large-scale relief program for jobless men. In 1931, with unemployment approaching 30%, the province organized work camps for jobless men, providing room, board, and 20 cents a day. In today's currency, that was $2.25 a day, or $13.50 for a six-day work week. However, under a cost sharing agreement, the camps were soon transferred to federal jurisdiction, run military-style by the Department of National Defence.[9]

The government scrambled to find a way to prop up its budget in the face of a collapsing revenue base. In this task, the government was quite possibly *too* successful.

The province created a new surtax on corporate income, hiked up inheritance tax rates, broadened the amusement tax, and more than doubled the gas tax. There was also a considerable expansion of the income tax, with both higher rates and lower exemption levels. Between 1928 and 1936 real per capita revenues rose 48%.[10]

While the province still ran significant budget deficits over these years, the massive tax increases did little to aid a suffering economy.

[7] Roughly 35% of those aged 70 and over received pensions.

[8] There were 56,600 registered vehicles in BC in 1925, one for every 10 people in the province.

[9] Jean Barman. 1991. *The West Beyond the West: A History of British Columbia*. U of Toronto Press.

[10] This is partly due to price deflation of 19% over those years. Without adjusting for price changes (deflation), per capita revenues increased 21%.

In 1941, the federal government introduced the Unemployment Insurance program, largely relieving the provinces of responsibility for the short-term jobless. However, by now, the economy was on wartime footing, and the unemployment of the 1930s gave way to acute labour shortages.

The Post War Era: 1946-1975.

The decades following World War II saw unprecedented growth in the size and scope of the provincial government. Over the course of three decades, the role of government in society was completely reinvented.

In 1946, real per capita revenues—in constant 2003 dollars—totalled $665. Three decades later, revenues were $4,020 per capita (constant $2003). In a period of nearly uninterrupted growth, real per capita revenues increased by over 500%—an annual average rate of 7.0%.

Health Care

The first major program of this era was the beginning of the public health care system. There were two major waves of change in health care policy, immediately after WWII, when hospital insurance was enacted, and then in the mid-1960s, when insurance was broadened to include physicians' services.

BC was the second province in Canada to enact a province-wide hospital insurance system, established in 1948. The program was modelled after the Saskatchewan system, created only a year before.

This was a major new policy initiative and it had much to do with the soaring government revenues in the late 1940s. The program was financed in part by premiums, initially set at $33 per family—just under $280 in today's currency. But most of the funding came from the new 3% sales tax, enacted at the same time as the health insurance program. To ensure nobody failed to see the connection, the sales tax was named the "Social Services Tax," which is still the statutory title today.

The sales tax quickly became one of the province's most important revenue sources. This was the only major new tax instrument of the post-war era, though tax rates in general increased several times. For example, the corporation income tax rate nearly doubled from 7% in the mid-1950s to 13% in 1975[11].

In 1958, the federal government moved to contribute 50% of the cost of provincial hospital insurance. Until then, only two provinces—Saskatchewan and BC—had universal hospital insurance. By 1961, all provinces covered the costs of hospital stays. For BC, this meant a considerable increase in federal transfer payments.

In 1965, BC's 17-year old hospital insurance program was replaced with a full medical care plan, providing coverage for physicians' services. Once again, BC was following the lead of Saskatchewan. But the province did not have to bear the full cost of the program for long. In 1968, the federal Medical Care Insurance Plan effectively enacted universal "socialized" health care across Canada.

Education

Education in BC had always been recognized as a public, rather than a private responsibility. However, by the end of WWII, population growth had outstripped school facilities. In 1949, an office of School Planning and Construction was established, to engineer a large-scale school building program.

More dramatic changes in education policy were seen in the early 1960s. Post-secondary education in BC was radically reshaped, with the establishment of the University of Victoria (1963), the BC Institute of Technology (1964), and Simon Fraser University (1965). At the same time, the province also began building the system of community colleges, starting with Vancouver College (1965), Okanagan College (1965), Selkirk (1966), and Malaspina (1969) among others.

[11] *The Corporation Income Tax and its Historic Contribution to Total Government Revenue*. Tax Policy Branch, Ministry of Finance and Corporate Relations. Victoria, BC. 1994.

All of this occurred alongside the creation of the Canada Student Loans Program, which substantially improved access to post-secondary education. BC provided an additional "top up" loans program soon after. The number of full-time post-secondary students in BC tripled between 1961 and 1971. As a share of the population aged 18-24, full-time post-secondary students rose from 11% in 1961 to 18% in 1971.[12]

Social Assistance

BC passed its first Social Assistance Act in 1945, widening the Mother's Allowance program to cover all persons in economic need. With this, income support shifted from a hodgepodge of private charities and municipal programs to a province-wide "safety net".

BC remained one of the few provinces with a general income support program until the 1960s. It was gradual federal expansion into this area, with the creation of cost sharing programs, that changed things.

In 1956, Ottawa initiated an income support program for the long-term unemployed—persons for whom Unemployment Insurance benefits had run out. A decade later, the Canada Assistance Plan was enacted, integrating several federal programs and providing a general income support benefit for anyone in economic need. Both of these programs were effectively funnelled through the provincial budgets. The provinces operated the programs and the federal government paid for 50% of the costs.

Infrastructure

Infrastructure programs were also under intensive development in this era. In 1960, BC Ferries began operation, at first directly operated by the Ministry of Transportation. This effectively replaced private sector operators whose service, based on aging vessels, was widely seen as inadequate and unreliable.

BC Hydro was established in 1962, after expropriating BC Electric (a private-sector company owned by Power Corporation of Montreal). This set the stage for large-scale investment in hydroelectric capacity. The flagship project was the massive WAC Bennett Dam, completed in 1967, which according to BC Hydro is still one of the world's largest earthfilled structures.

By the early 1970s, much of the modern system of government had been constructed in BC. There are few programs and policies we have today that were not already in place.

The Close of the Century: 1976-2003

In contrast to the post-war era, the last 28 years have seen comparatively little growth in the BC government. Between 1976 and 2003, real per capita revenues increased only 31%—an average of 1.2% per year. Further, there was little in the way of major policy changes.

Inheritance taxes were repealed in 1977. Tobacco tax was introduced in 1971, three years after the federal government began publishing health warnings. In the same year, the hotel room tax was enacted, intended to finance tourism promotion.

The BC Lottery Corporation was established in 1974, five years after the federal government legalized government-sponsored gambling.[13] The agency has posted consecutive record profits in every year since then. Gambling profits now contribute almost $700 million a year to the BC budget (3% of total revenue).

Around the same time, ICBC was formed, taking over automobile insurance from the private sector. However, not having a mandate to charge monopolistic prices, the corporation has not been a revenue generator for government.

In both education and health care, there have not been any dramatic policy changes. However,

[12] Source: *Education in Canada*. Statistics Canada, Catalogue no. 81-229. Various years.

[13] BC Lottery Corporation was initially part of an inter-provincial cooperative, the Western Canada Lottery Foundation. The BCLC was established independently in 1985.

we have seen a gradually increasing usage of both government services.

In education, there have been steady increases in post-secondary attendance. Enrolment had declined slightly in the 1970s, and by the beginning of the 1980s, post-secondary students represented about 15% of youth aged 18-24. Enrolments have increased steadily since then, reaching 25% in 1999. This is the highest rate of post-secondary enrolment in BC history.

This trend was partly encouraged by a more generous student loans program. In 1987, a portion of BC student loans were converted into non-repayable grants (a policy which ends in August 2004), and in 1994, federal eligibility restrictions were loosened, allowing more students access to student loans.

Health care has been the most rapidly growing element of the BC budget in recent years. This reflects a number of factors, including the increasing cost of medical technology and an aging population that has a much higher need for health care services. The share of the population aged 65 and older has grown considerably since 1970, rising from 9% to 14% by 2003.

The 1990s also saw a sort of "boom and bust" in the usage of the income assistance program. The number of people on income assistance rose from a little over 6% of the BC population in 1990 to almost 10% in 1995. There has since been a steady drop in the number of people receiving income assistance, such that, by 2000, recipients made up 6% of the population—roughly the same as in 1990. By 2003, this proportion dropped to 4%—the lowest level in two decades.

A major challenge for the BC budget over the last decade has been federal policy. Federal transfer payments were sharply scaled back in the 1990s, offloading much of the federal budgetary problems onto lower levels of government. In BC, federal transfers made up more than 20% of total revenues in the mid-1980s. By 1998, transfers had fallen to 9% of revenues, putting a substantial hole in the BC budget.

Federal transfer payments to BC fell sharply in the 1990s

Data Source: BC Ministry of Finance

Over the last few years, federal transfers have partly recovered, rising to 15% of revenue in 2003. About half of this increase is due to BC's new eligibility for equalization payments.

Overall, however, the last quarter century has been a quiet period for the BC government. The model of government established in the post-war era has more or less stabilized.

One Hundred Years of Government

Real per capita government revenues are more than 12 times larger today than in 1914.

Government revenues amounted to $5,382 per person in 2003. In 1914—some 90 years earlier—revenues were $408 per person (in constant 2003 dollars). The difference, $4,974, represents the price tag of the modern system of provincial governance and its social safety net.

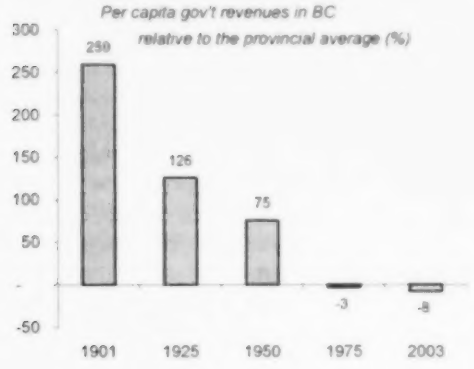
The dramatic change in the role of government is also well illustrated by the components of provincial spending. In 1914, health, social services and education consumed about 18% of the BC budget. Last year, these three items made up 81% of the budget.

In spite of this tremendous growth, BC has come to have a comparatively inexpensive government. In 1901, per capita revenues in BC were almost 260% higher than the combined provincial aver-

age. By 1950, this differential had fallen to 75%. By the early 1970s, per capita revenues had further declined to the average in Canada. By 2003, per capita revenues were 8% below average.

BC revenues evolve from high above to slightly below the provincial average

This is a striking evolution in the size of the BC government, relative to other provinces. There



are several important factors in this, notably the declining relative wealth of BC, the harmonization of provincial tax systems, and the rise of federal transfer payments.

Declining relative wealth

British Columbia entered confederation as a very wealthy province. However, since then, the province has typically had economic growth that was slightly below the Canadian average. Over the last century, the rest of the country has "caught up" with, and recently surpassed, BC's economy.

In 1890, estimates suggest that BC's per capita GDP was about 60% higher than for Canada as a whole. By 1956, this differential had fallen to 20%[14]. Today, BC's per capita GDP is 8% below Canada's. The economy has grown enormously in the last 100 years, but growth has been higher in other parts of the country. Relatively slow economic growth has been a constraint on the province's revenue capacity.

Harmonization of tax systems

British Columbia was the pioneer of the modern provincial tax system, as the first province to introduce personal and corporate income taxes. Indeed, prior to the 1930s, only two other provinces (PEI and Manitoba) had personal income taxes, and only one (PEI) had corporate income taxes. It was not until WWII that the provincial tax systems showed much uniformity. And this gradual harmonization was largely a process of other provinces adopting tax policies similar to those of BC.

Rise of federal transfer payments

Since the beginning of the fiscal equalization program in 1957, the federal government has sought to reduce disparities between different regions of the country. Provinces with limited revenue capacity are eligible for transfer payments, helping to ensure a roughly equivalent level of public services across the country.

Federal transfers for social programs have had much the same equalizing effect. BC was among the first provinces to establish major social programs such as hospital insurance, medicare and general income support. Through its transfer payments, the federal government transformed these sorts of regional experiments into nationwide programs. This brought other provinces up to the level of services provided in BC.

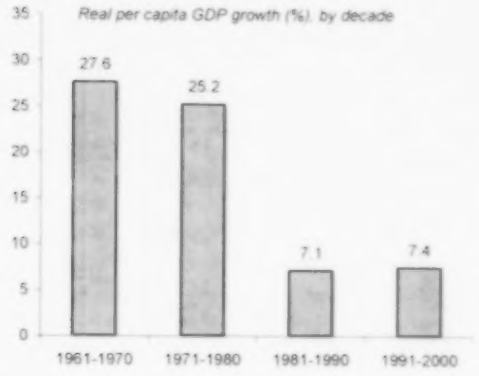
The age when BC had a uniquely large and active government is over—in fact, that period ended several decades ago.

[14] Source: Green, Alan. 1971. *Regional Aspects of Canada's Economic Growth*. U of Toronto Press. Green calculated "gross valued added," which is taken as an approximation of GDP.

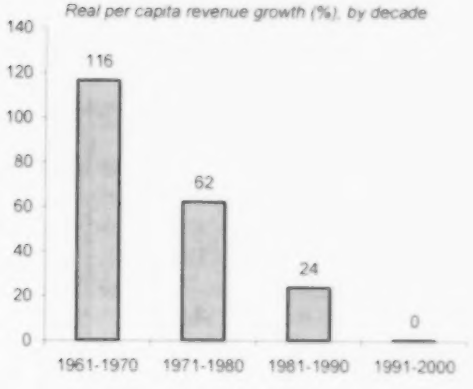
Economic growth and government revenue

There have been 20 years of relatively slow economic growth in BC. And this slowdown has occurred alongside two key changes in government.

A slowdown in economic growth...



...Tracked by a slowdown in revenue growth



First, government revenues per capita had fallen to the Canadian average before the economic slowdown began in BC. As a result, BC was not overall at a "competitive disadvantage" with the other provinces.

Second, revenue growth fell to its slowest pace in decades at the same time as the economic slowdown. Indeed, there is a strong positive correlation between changes in revenues and changes in GDP (+0.48). In other words, government revenues and GDP tend to rise and fall together, rather than in opposition.

This positive correlation, however, should not be taken to mean that increases in government revenues *cause* increases in GDP. The more plausible interpretation is the inverse: GDP growth directly increases the government's revenue capacity.

If the size of government has an impact on GDP, as is often suggested, the effect is certainly not clear in the history of BC government revenues.

Table. 1

Real per capita government revenue

British Columbia, Selected years *($2003)*

1920	$	250
1930	$	421
1940	$	592
1950	$	1,023
1960	$	1,351
1970	$	3,062
1980	$	5,136
1990	$	5,898
2000	$	5,371

Adjusted for inflation using the Canadian CPI

Infoline

July 23, 2004

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BC at a glance . . .

POPULATION (thousands)	Apr 1/04	% change on one year ago
BC	4,177.4	1.0
Canada	31,825.4	0.9
GDP and INCOME		
(BC - at market prices)	2003	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	142,418	5.1
GDP *($ 1997 millions)*	130,914	2.2
GDP *($ 1997 per Capita)*	31,572	1.4
Personal Disposable Income *($ 1997 per Capita)*	19,495	-0.4
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - May	3,550	3.9
Merchandise Exports - May	2,816	12.4
Retail Sales - Mar	3,613	2.1
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Jun '04	% change
BC	123.6	1.8
Canada	125.1	1.7
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Jun '04	prev. month
Labour Force - BC	2,249	1.0
Employed - BC	2,080	1.3
Unemployed - BC	169	-2.5
		May '04
Unemployment Rate - BC *(percent)*	7.5	7.8
Unemployment Rate - Canada *(percent)*	7.3	7.2
INTEREST RATES (percent)	Jul 21/04	Jul 23/03
Prime Business Rate	3.75	4.75
Conventional Mortgages - 1 year	4.60	4.55
- 5 year	6.55	6.20
US/CANADA EXCHANGE RATE	Jul 21/04	Jul 23/03
(avg. noon spot rate) Cdn $	1.3242	1.3991
US $ *(reciprocal of the closing rate)*	0.7552	0.7147
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Jun '04	one year ago
BC	676.88	-1.7
Canada	679.67	3.0

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

Released this week by BC STATS

- No new releases

Next week

- BC Business Indicators, July 2004
- Current Statistics, July 2004
- Immigration Highlights, 1st Quarter, 2004

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